



CITY COUNCIL RETREAT

November 20, 2004

FISCAL OUTLOOK

FY 2006 Operating Budget and

FY 2006 to FY 2011 Capital

Improvement Program

Chapter I

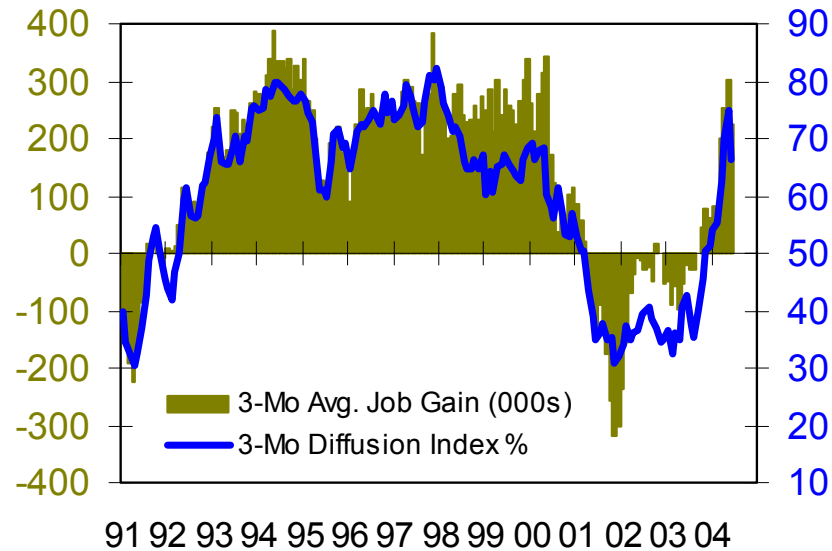
Highlights

- National Economy Outlook Positive
- Regional and City Economy Strong
- Strong Real Estate Tax Base Growth
- Double-digit Residential Assessment Increases likely in 2005
- Future Real Estate Market Cycle?
- Significant FY 2005 Operating Budget Pressures
- Demands on CIP Increasing, including Construction Price Increases

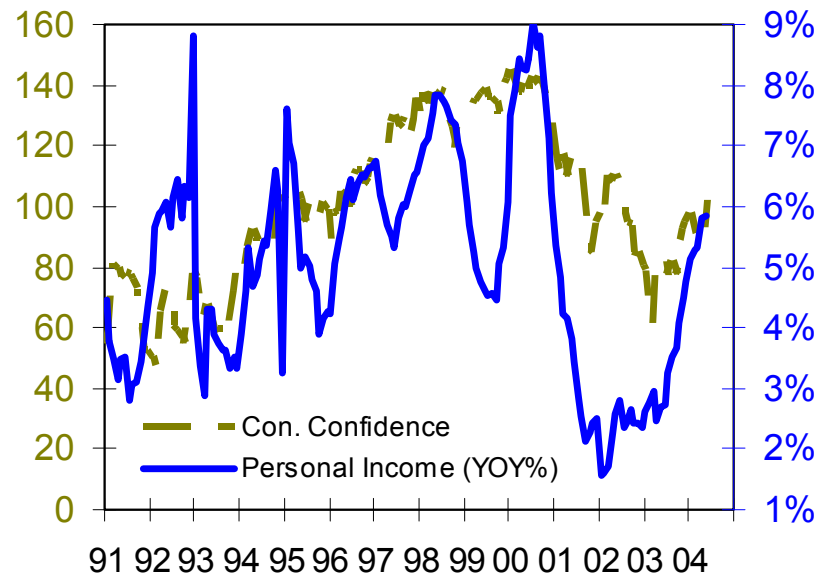
National Economy Positive, but ...

- Positive Job Growth
- Positive Income Growth
- Inflation Low, but Turning Up
- Rising Interest Rates
- Oil Price and Trade Deficit Concerns

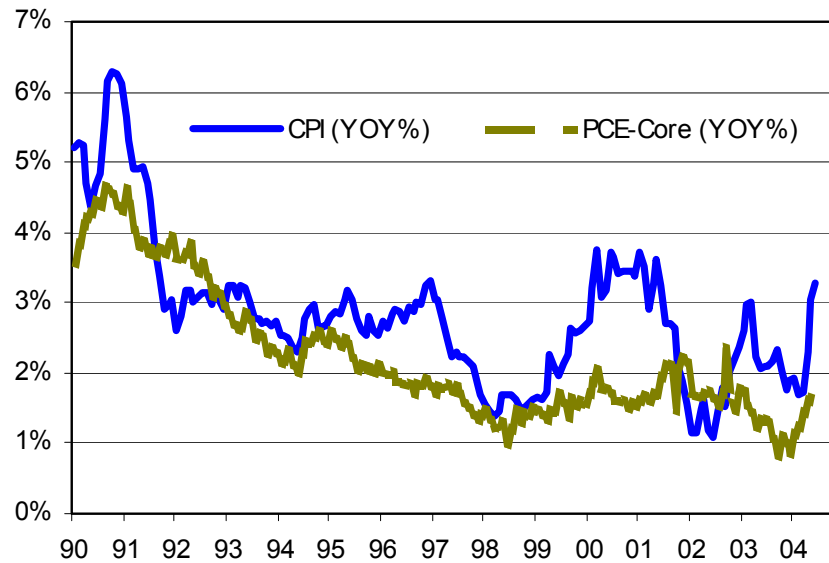
Job Growth Picked Up Broadly in Q2...



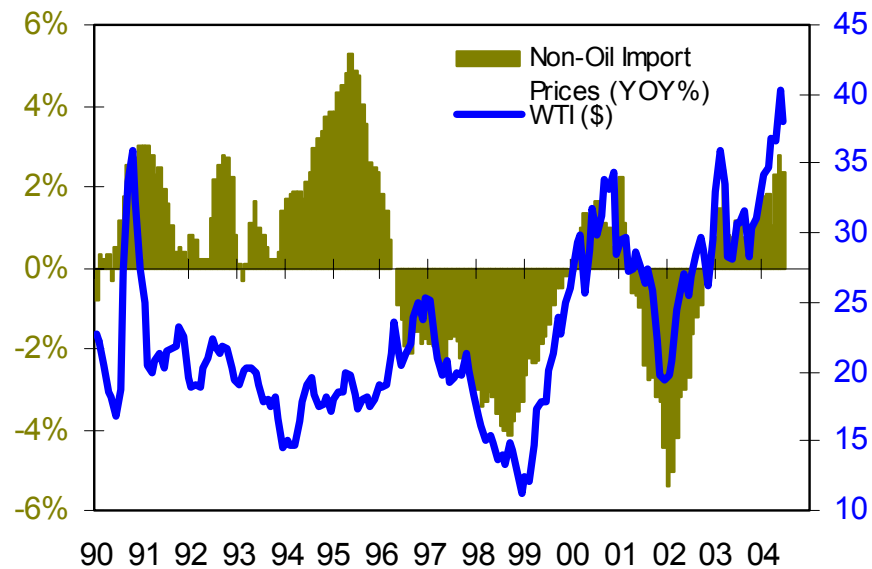
...Helping Confidence and Income



“Headline” Inflation Moved Up in Q2...

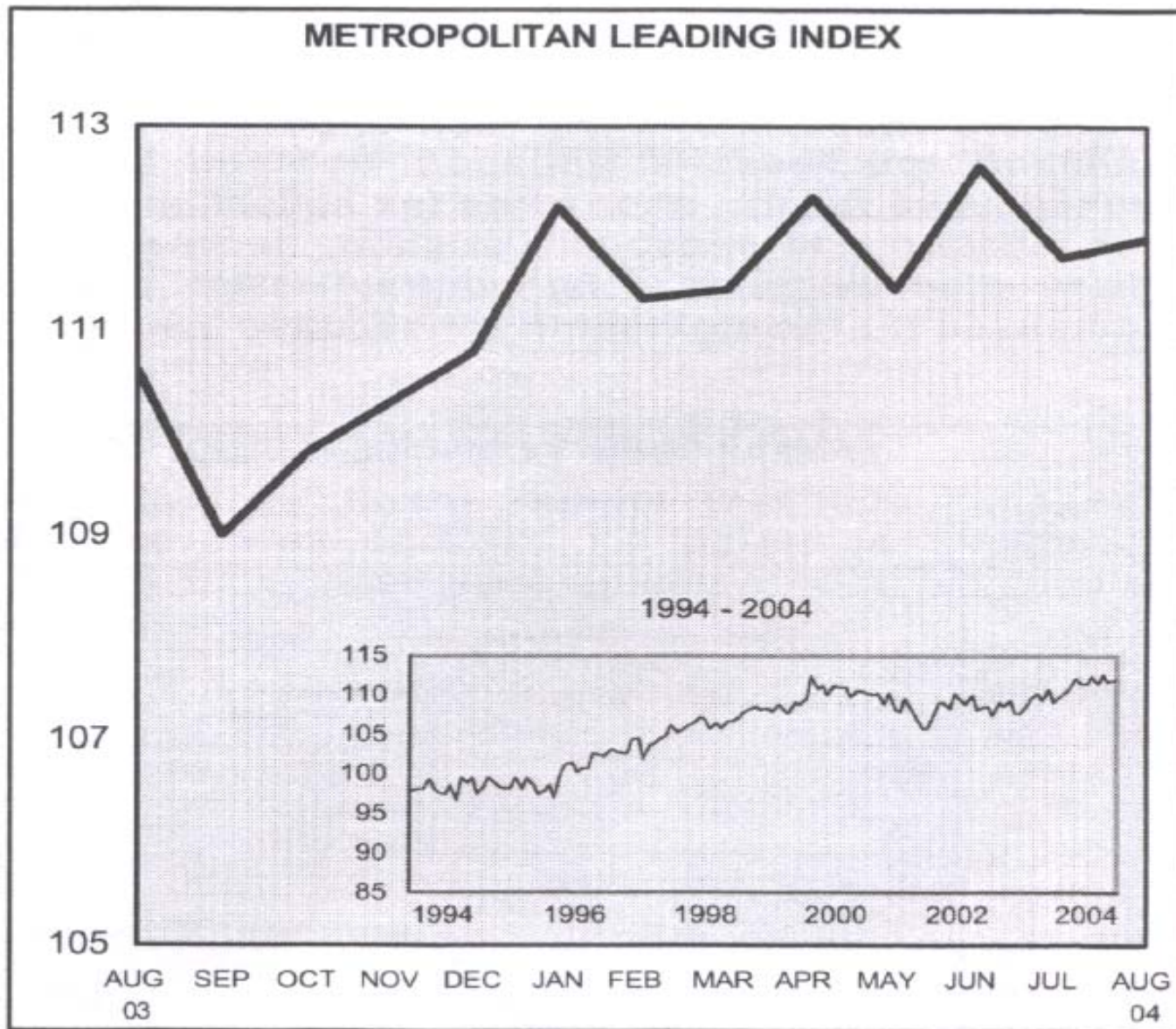


...Spurred in Part by Low \$ and High Oil



Strong Regional Economy

- Exceptional Job Growth
 - Grows State and Local Tax Revenues
 - Increases Housing Prices
 - Negatively Impacts Affordable Housing
 - Stresses Transportation Capacity



Source: Center for Regional Analysis, George Mason University.
Compiled by the Fairfax County Department of Management and Budget.

Washington Area Employment Picture

- Creating two times as many payroll jobs as any other metro area in the U.S
- Creating High Quality Jobs
 - High Income
 - Office-using
 - Professional Services

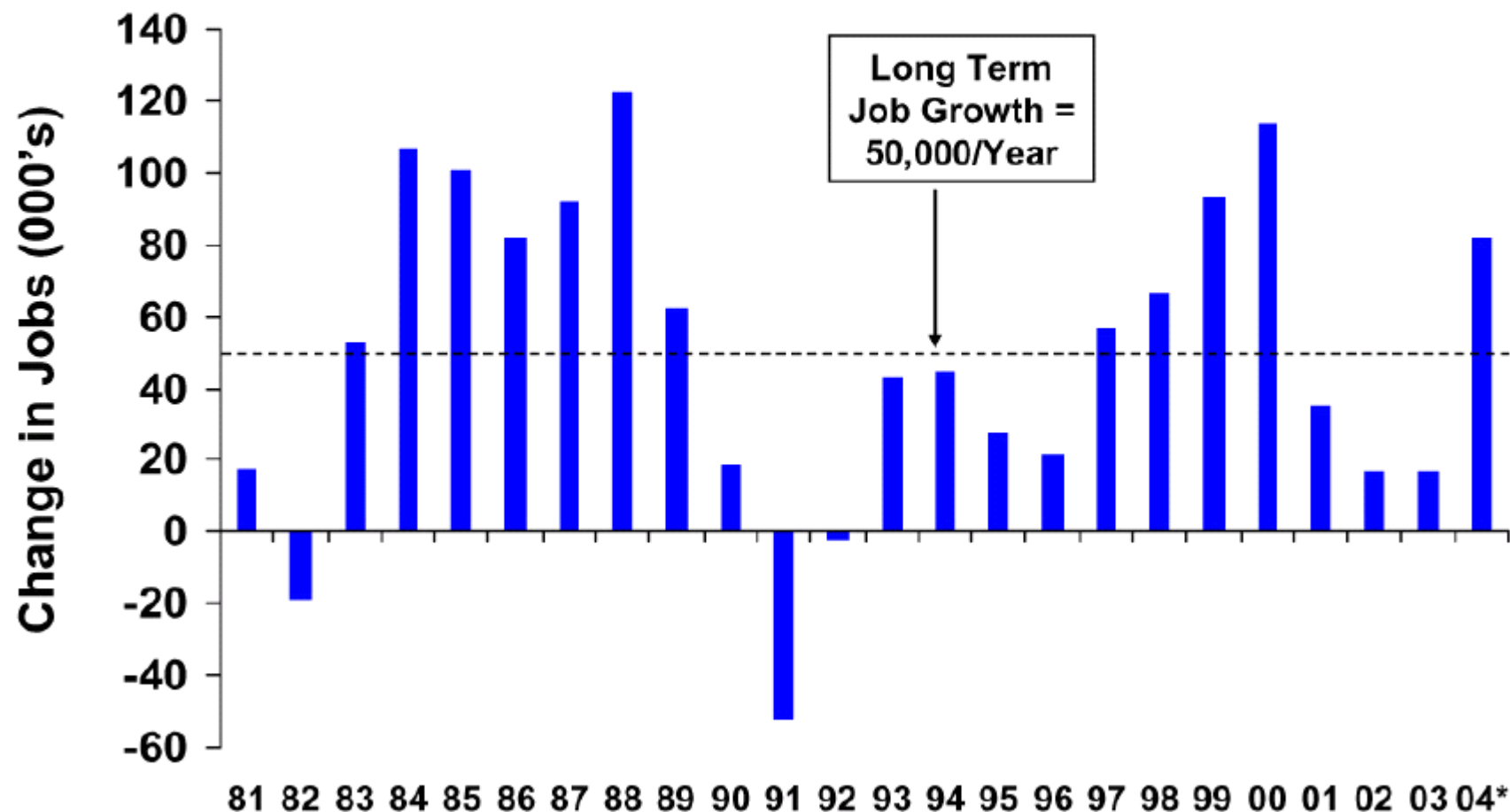
Washington Area Job Growth

- Metro area job growth continues to surge
- 82,000 payroll jobs created in the 12 months ending June 2004
- 2.9% rate of growth here, compared to 1.1% nationally
- Level of growth is 1.5 times more than the region's annual average of 50,000 new payroll jobs over the past 25 years

Source: Delta Associates

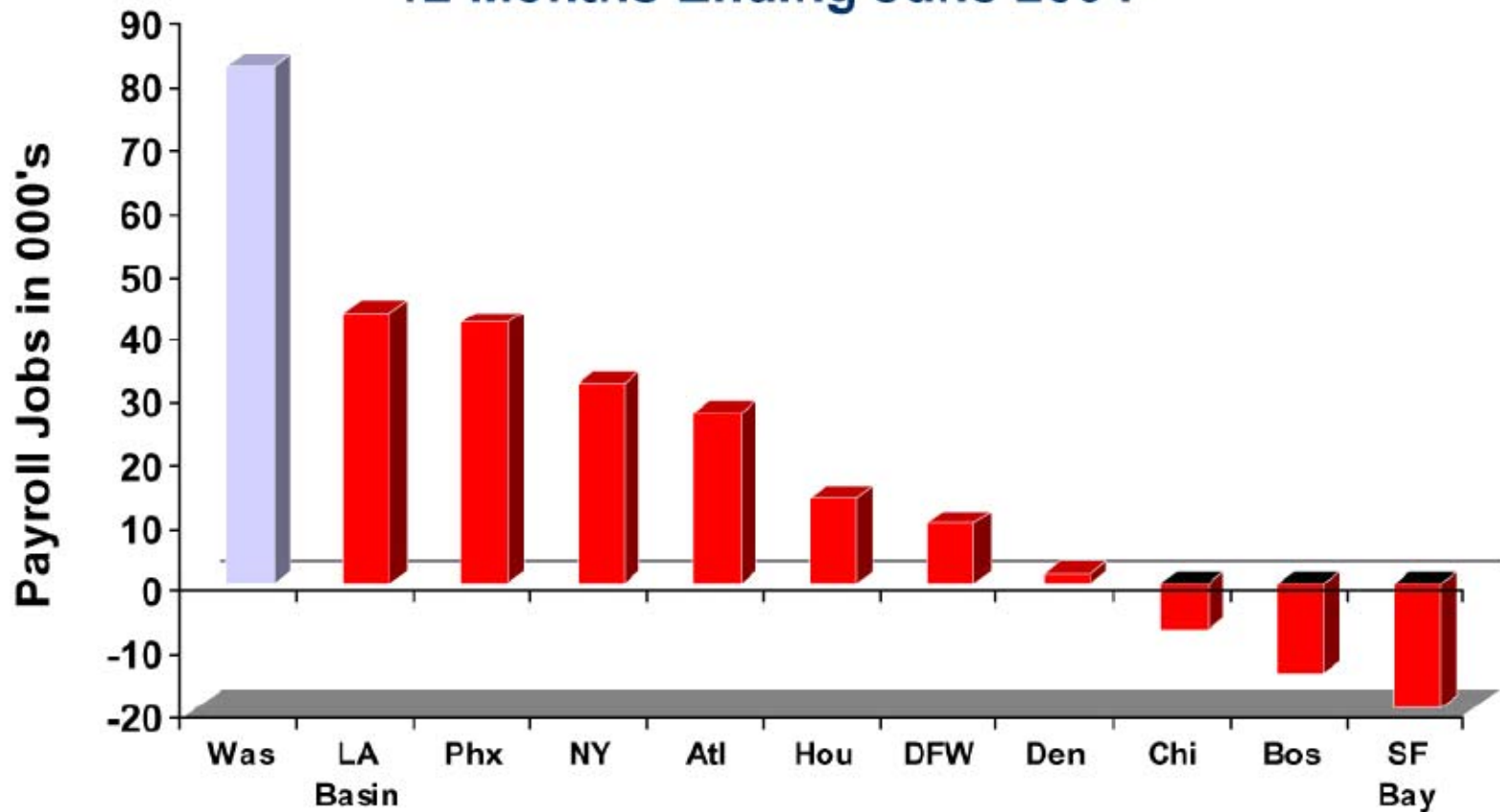


Job Growth in the Washington Area 1981 through June 2004





Job Growth Large Metro Areas 12 Months Ending June 2004



Source: Bureau of Labor Statistics; August 2004.

Unemployment Rates Declining

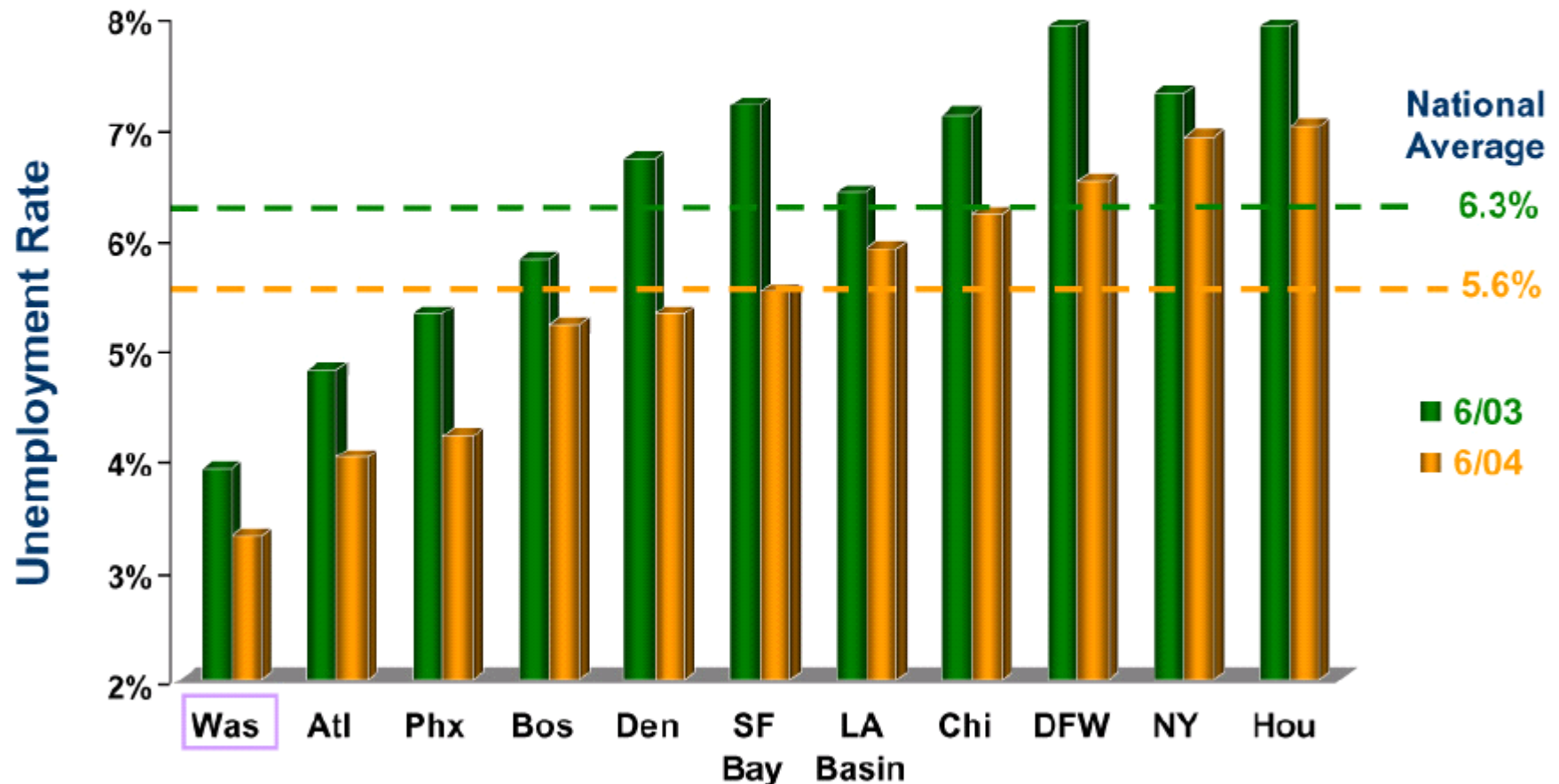
- National unemployment at 5.1%
- Washington metro unemployment remains the lowest in the country
- Down to 3.3%, from 3.9% a year earlier
- Area unemployment peaked at 4.0% in June 2002 and has been declining since then
- City unemployment rate at 1.8%



Unemployment Rates

Large Metro Areas

June 2003 vs. June 2004

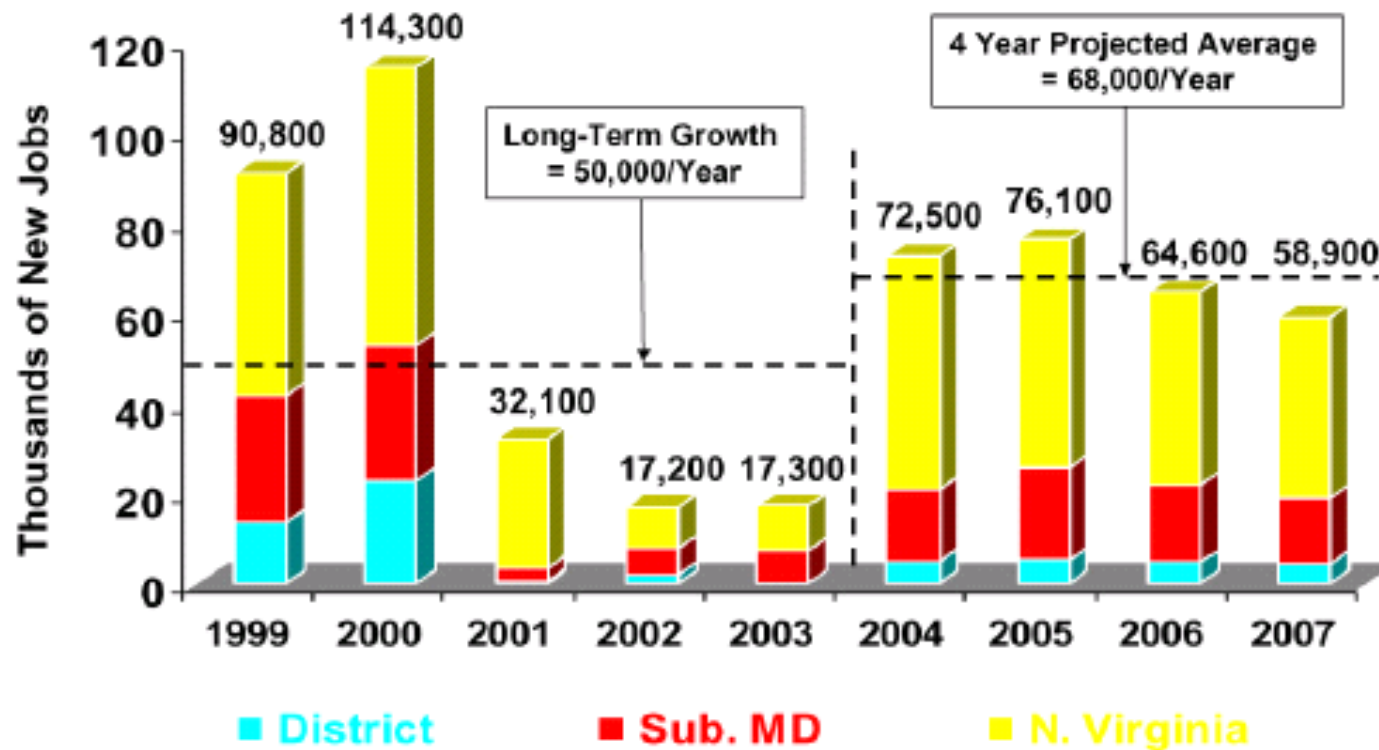


Area Job Growth Forecast

- Government contractors will continue to grow as federal government procurement increases
- Tech sector benefits directly from government spending and private tech firms will continue to thrive
- Federal outsourcing to private sector continues
- Food services and construction sectors will continue to add jobs to support the growing population



Projected Job Growth Washington Metro Area 2004-2007



Source: Dr. Stephen Fuller and Delta Associates, August 2004.

Benchmarking City Metrics

	U.S.	VA	Alexandria
Unemployment¹	5.4%	3.3%	1.8%
	DC Area	Northern VA	Alexandria
Office Vacancy²	10.9%	13.4%	9.3%
Apartment Vacancy³	2.1%	1.7%	2.1%
Hotel Occupancy⁴	72.4%	—	71.9%
Hotel ADR⁴	\$124	—	\$108

All data is as of 9/30/04

¹ Virginia Economic Commission

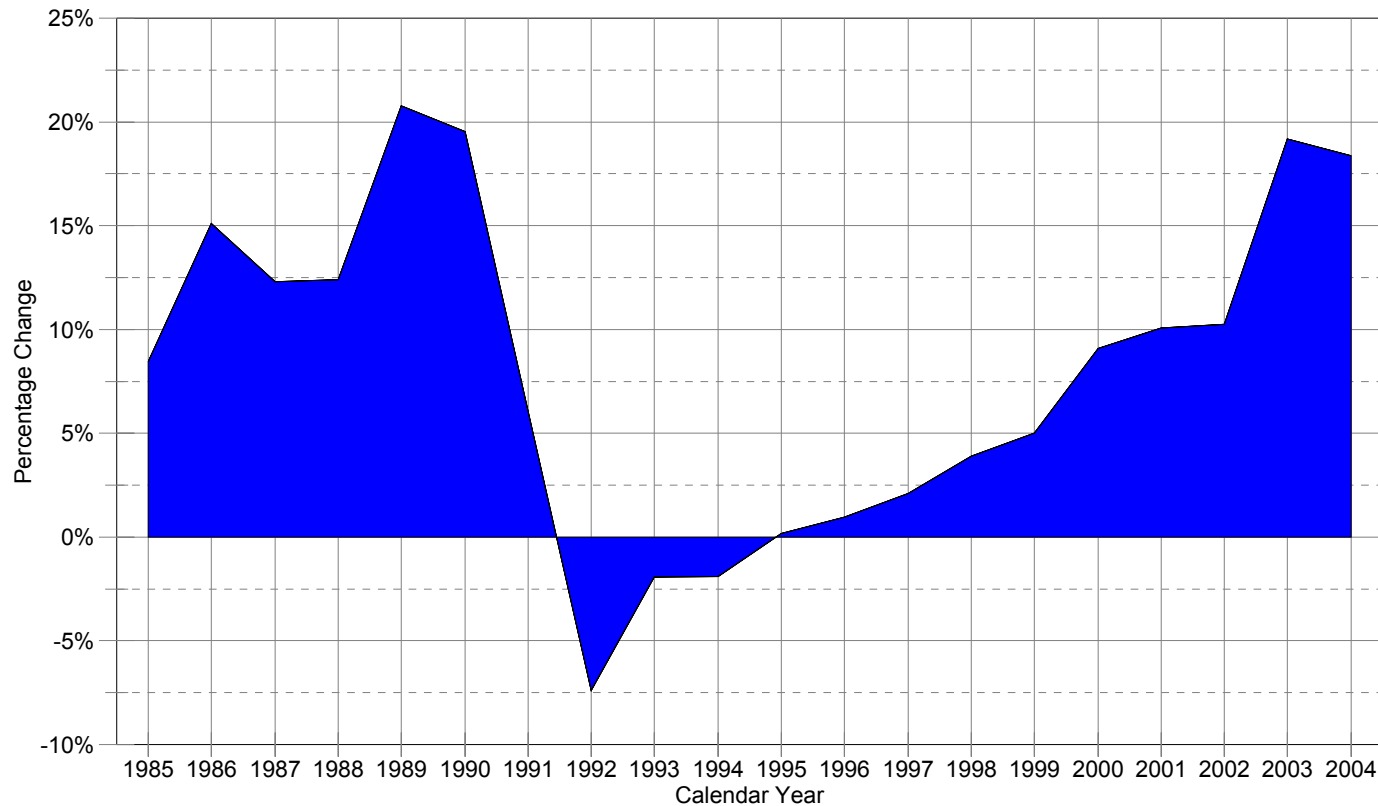
² Grubb and Ellis

³ Delta Associates

⁴ Smith Travel Resources - data is for September 2004

Real Estate Tax Base History

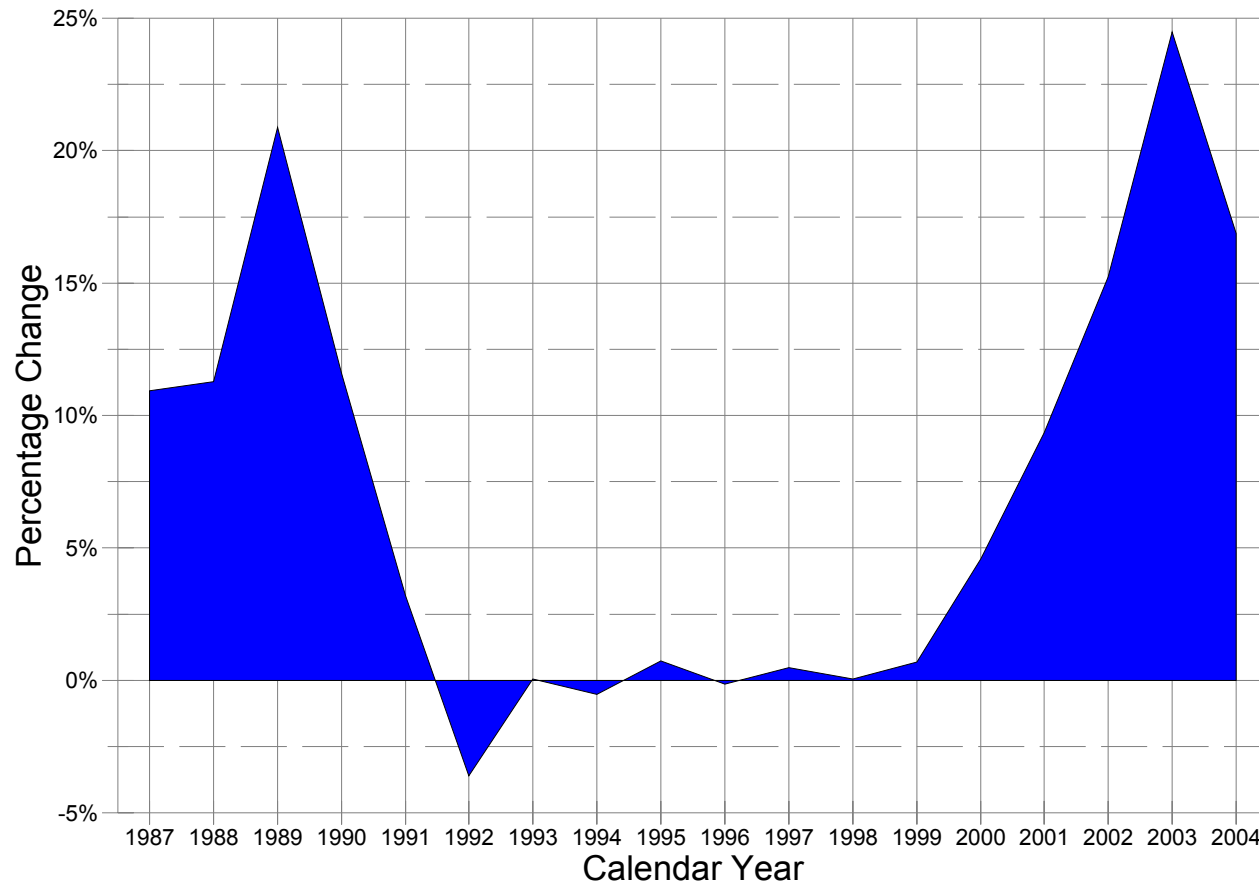
Annual Percentage Change 1985 -2004



Source: Department of Real Estate Assessments
Prepared by: Office of Management and Budget

Residential Tax Base History

Annual Percentage Change 1988 - 2004



Assessment Projections

- Residential Assessments = +15% to +18%
- Condominium Assessments Higher
- Condominium Conversions Starting
- All Commercial Sectors Positive
- Total Real Estate Tax Base Growth = +15% to +18%
- Tax Rate of \$0.995 = Revenue Growth of \$33M to \$40M



**The 40 Richest
People Under 40**

**ROBERT NARDELLI
HOW THE G.E. WAY
REVIVED HOME DEPOT**

FORTUNE

ON-SALE UNTIL SEPTEMBER 27, 2004

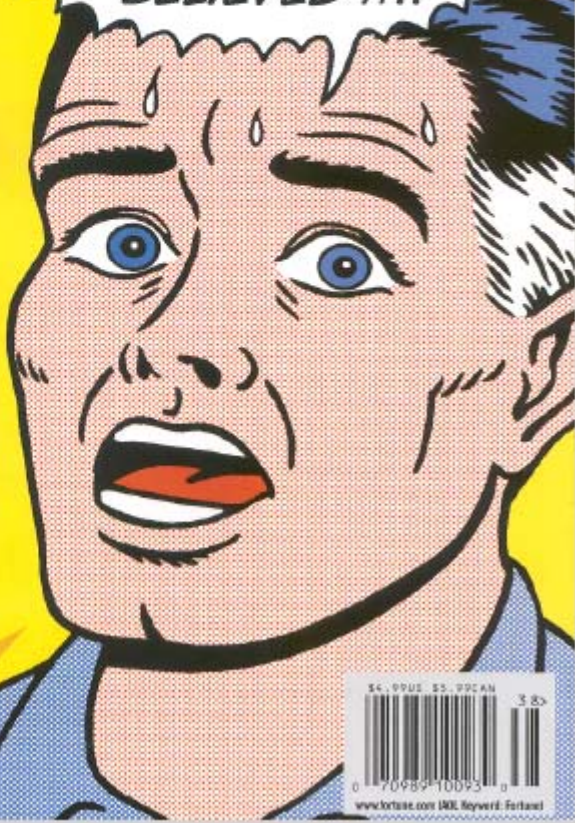
REAL ESTATE

IS THE HOUSING BOOM OVER?

Million-dollar condos.
Speculators everywhere.
Here's why the bubble
is going to pop.

MORTGAGES:
Strategies
to Beat
Rising Rates

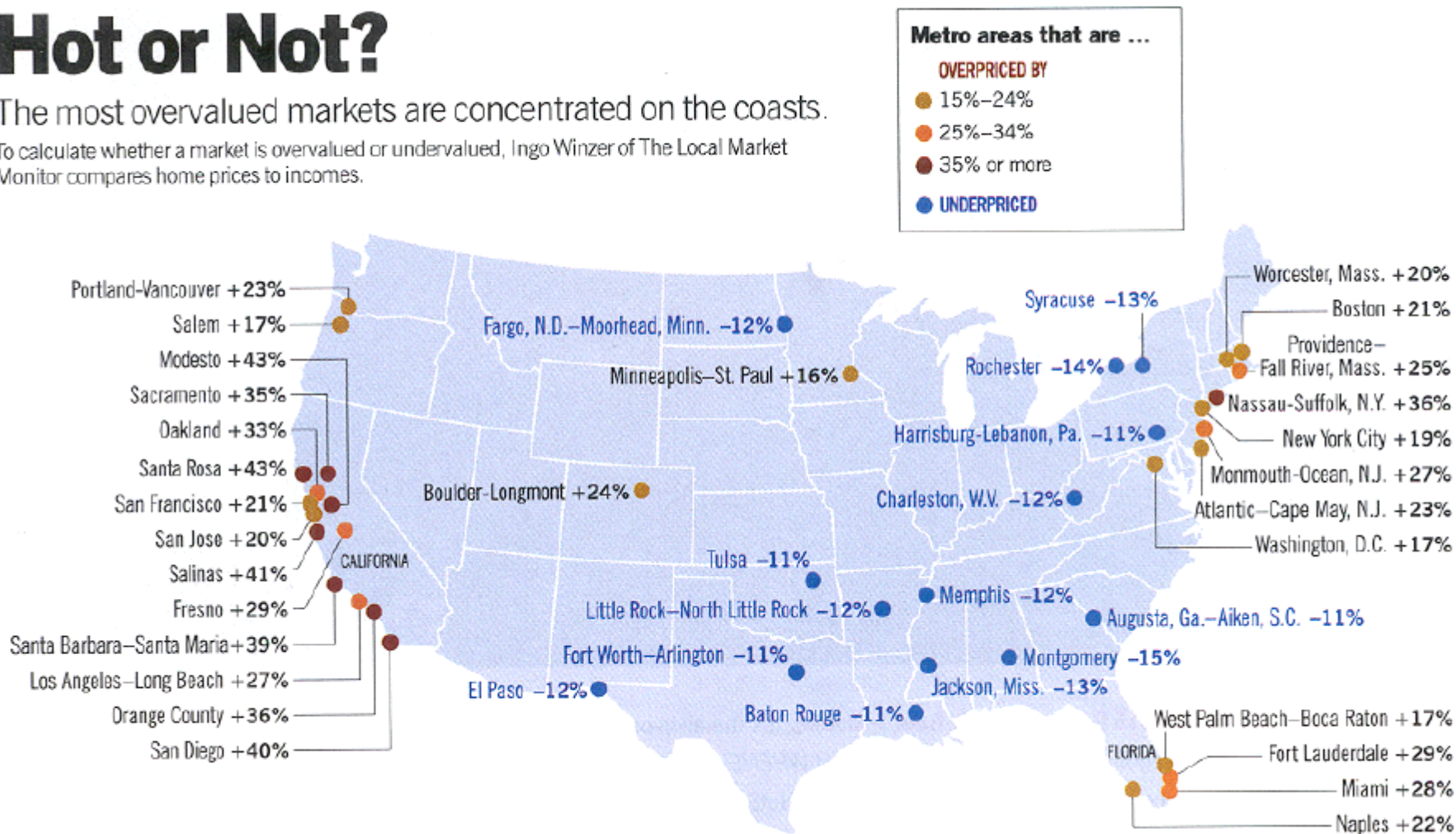
THEY SAID
PRICES WOULD
GO UP FOREVER!!...
AND WE
BELIEVED IT!!



Hot or Not?

The most overvalued markets are concentrated on the coasts.

To calculate whether a market is overvalued or undervalued, Ingo Winzer of The Local Market Monitor compares home prices to incomes.



Real Estate Tax Relief

- Fairfax, Prince William and Arlington Counties have already announced their intent to lower their RE tax rates for 2005
- City Senior and Disabled Tax Relief Indexed
- AHOP Program expansion to be crafted and proposed as part of FY 2006 budget

Personal Property Tax Issues

- 2004 Tax Base dropped 3% due to falling used car prices
- \$3.2 Million Shortfall in FY 2005
- Expected to continue in FY 2006
- 70% State-paid Tax Relief Continues
- FY 2007 State Budget Cap and Cash Flow Impact

Other Local Tax Revenues

- Sales, Meals and Hotel Taxes Exhibit Positive Growth
- “Talk Taxes” Legislation Pending
- Recordation tax rate increase of FY 2005 should yield \$1.4 million of additional revenue in FY 2005 and \$1.7 million in FY 2006

Intergovernmental Revenues - State

Virginia Could Spend Years in the Red

Despite New Revenue, Warner Draft Predicts Shortfalls Emerging With 2007 Budget

By Michael D. Shear
Washington Post Staff Writer
Sunday, November 7, 2004;

RICHMOND, Nov. 6 -- Virginia is on the verge of the decade despite recent economic growth, according to preliminary projections by state budget staff.

The early budget analysis shows a \$31 million shortfall for the year and a \$31 million shortfall for the year, they fear that decisions made by the legislature will balloon the shortfalls to near

N.Va. Boom Sparks Economic Recovery

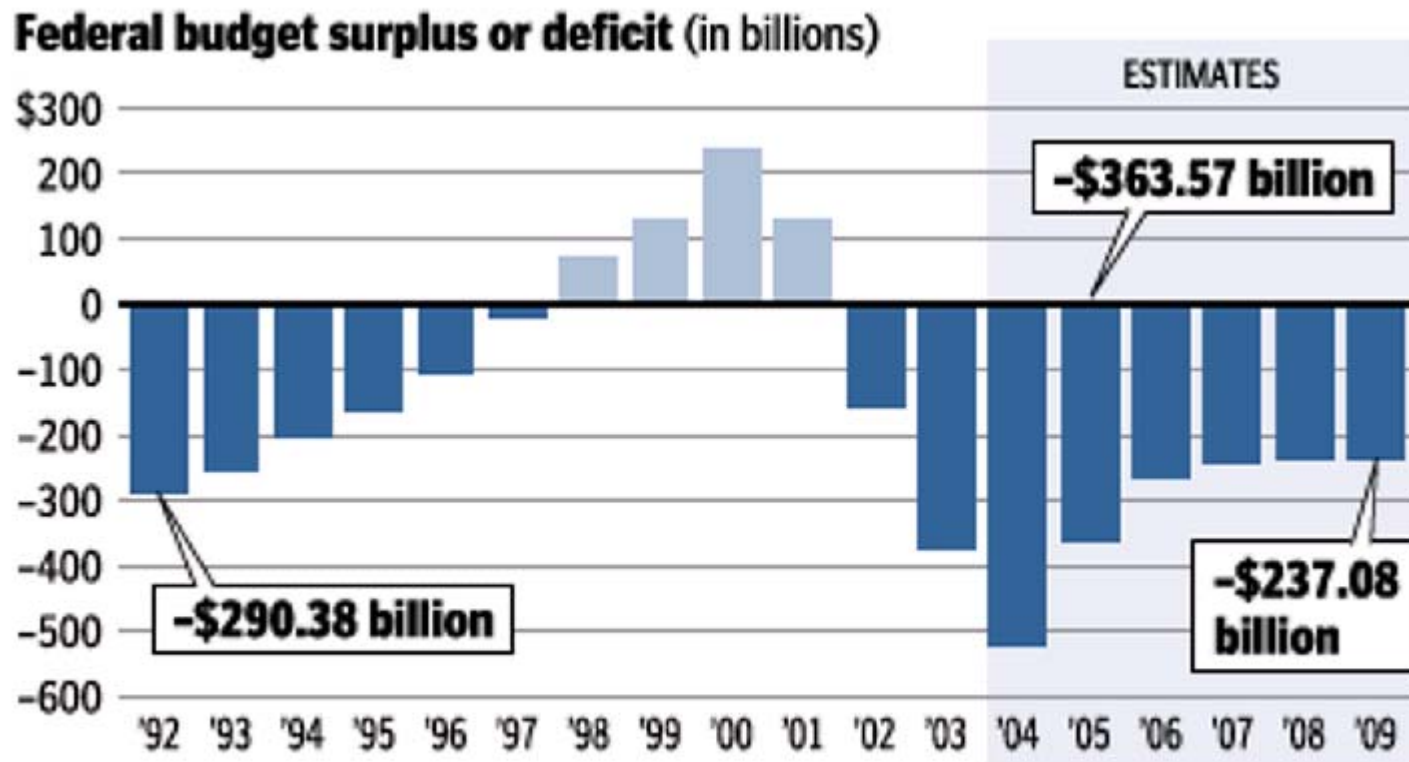
Legislators Advised To Control Spending

By Michael D. Shear
Washington Post Staff Writer
Wednesday, November 10, 2004; Page B01

CHARLOTTESVILLE, Nov. 9 -- Dramatic growth in federal defense and anti-terrorism spending in Northern Virginia has fueled a rapid economic recovery in the commonwealth and boosted tax collections, economists told state lawmakers Tuesday.

But the rosy outlook is tempered by two realities, the economists and the House of Delegates budget staff said: The rest of the state is not experiencing the same prosperity as Northern Virginia, and growing state expenses are gobbling up the money as fast as it comes in.

Intergovernmental Revenues - Federal



SOURCE: White House Office of Management and Budget

THE WASHINGTON POST

Environmental Fees

- Solid Waste Rate Review
- Sanitary Sewer Rate to \$0.80 to fund third year of five year self-sufficiency plan
- Below market sanitary sewer connection fee at end of three year base rate cap, major increase planned for FY 2006

Conclusion

- Local Revenue Outlook Strong
 - Positive Tax Revenue Growth
 - 2005 = +15% to +18% Assessment Increase
 - 2005 = Consider Tax Relief Initiatives
 - 2006 = Further Assessment Increases, but how long can market sustain continued large home and condo value increases?
- State Outlook Positive/Stable – How is Surplus Used?
- Federal Grant Revenue Reductions Likely